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THE PROBLEM OF INFLATION IN GERMANY

Description

A study of the German inflation of 1914-1923, the financial policies of the Nazis before and during the present war, and the problem of possible inflation after the defeat of Germany.

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SUMMARY

1. The basic cause of the inflation of 1914-23 was the budget deficit, an unavoidable result of war and defeat. It was aggravated, however, by the weak and faulty financial policy of the government and by domestic political events. The main factors of immediate influence on the progress of the inflation were the following:

a. a decline in the foreign value of the mark resulting from excessive imports of foreign goods and payments of foreign exchange for reparations;

b. the liberal credit policy of the Reichsbank;

c. a flight from the mark and extensive speculation;

d. price rises in line with the external depreciation of the mark.

e. the acceleration of the velocity of money circulation to an unprecedented degree.

2. The government policy of seeking reparation reduction by claiming that inflation was the result of an excessive reparation burden (which has since been proved greatly exaggerated) resulted in official inertia in the face of inflation

3. Budget reform was sabotaged by industrial leaders in order to undermine the liberal government and because they benefited from inflation. Only in the fall of 1923 when social revolution threatened did this class agree to measures for currency stabilization.

4. The Nazis were able from 1933 to 1939 to spend 90,000,000,000 RM without inflation by reason of a rigid tax policy, general price and wage control, systematic restriction of private spending and investment activity, and the monopolization of accumulated savings for government use. On the outbreak of war, additional controls were established, which have prevented inflation despite the discrepancy between supply of goods and volume of money.

5. Although price inflation has been avoided, inflation

in the means of payment could not be prevented. The hoarding of cash has become widespread, and in some classes disregard for the value of money has become apparent. Increased taxation has not been adopted because of the government's fear of its effect on output and the opposition of big business. Destruction of national wealth by the effects of war, rising currency deposits and savings, and a rapid increase in the national debt have undermined confidence in the future value of money, and it is widely believed that only confiscation of savings or inflation can meet the problem of the Reich debt, now more than three times the pre-war national income.

6. With the defeat of Germany and the breakdown of government controls and the distribution system, the possibility of inflation will materially increase.

7. In case Allied fiscal policy calls for the prevention of inflation, necessary inflationary measures (unemployment relief and public works) should be offset by deflationary measures (impounding of some currency in circulation, extraordinary taxation), in order to achieve an equilibrium between the divergent forces.

8. Such a policy implies the stabilization of prices as soon as possible. This can be achieved in part by re-establishing the food supply in cities and by allocation of raw materials to industry. Control over the Reichsbank and the banking system might be used to restrict currency circulation and to see that new credit is not granted beyond the level justified by increased production. When food prices have been stabilized, other prices and wages could be brought into line, and this relationship could be secured by the full weight of the government's financial and economic powers.

9. The reduction of currency circulation could be

achieved by forcibly impounding part of cash holdings and bank deposits against a receipt subsequently good for taxes or Reich bonds. Exchange of the circulating currency against new money would prevent financing of the Nazi underground out of secret funds and facilitate adjustments arising from territorial changes after the armistice. Banks could be prevented from increasing the currency circulation by obtaining cash from the Reichsbank through their various rediscountable titles. Cashless payments (transfers) also could be restricted.

10. Costs of demobilization and public works aside, the budget deficit could be reduced by continuing present tax rates and cutting expenditures. Foreign-exchange controls could be confirmed and foreign trade placed under exclusive government control in order to prevent export-dumping and to fit German exports into the desired pattern of international trade. German clearing debts and German government paper held by foreign banks could be settled as part of the reparation problem.

THE PROBLEM OF INFLATION IN GERMANY

I. EXPERIENCE OF 1914-1924

A. The War Financing and Its Defects

In 1914 the German government based its war finance program on the assumption that the war would be short. No additional taxation was introduced. Loans were considered sufficient to cover the total war expenses.[1] The government obtained the necessary cash by discounting treasury notes with the Reichsbank which, in turn, sold these notes to banks and large business firms. Every six months loans were floated to redeem the treasury notes. The political and fiscal organization of the country made it nearly impossible to raise taxes for war purposes. The states refused to let the Reich collect income taxes, and the Social Democratic party would not consent to the increase of consumption taxes without a simultaneous increase of direct taxes.

Mobilization and initial war expenses, in the summer of 1914, were financed by the issue of two billion marks in Reichsbank notes against treasury notes. The note issue facilities of the Reichsbank were enlarged and special loan offices (Darlehenskassen) established to cooperate with the Reichsbank and make credit easily available to local government bodies and private enterprise.[2] The notes of the loan offices were used as cover for bank notes. In order to facilitate the conversion of the economy to war production, the government paid high prices for all deliveries and thus started a general boom. A great liquidity of the money and capital market resulted from the discounting of treasury notes by the Reichsbank, but the expectation that all war expenses could be covered by bond issues was not realized. The amount of loans subscribed to by the public, partly with the help of

1. Bresciani-Turoni, The Economics of Inflation, p. 48.
2. Rist, Les Finances de Guerre de l'Allemagne, p. 45.

bank credit, permitted repayment of only a portion of the treasury notes outstanding at the time of the loan issue, and the short-term debt increased steadily.[1] Moreover, the Reichsbank did not succeed in selling much more than one-half of the treasury notes to the public. An inflationary expansion of the note circulation resulted from its growing portfolio of treasury notes. Out of the total war expenditure, some 144 billion marks, the government raised about two-thirds by bond issues and one-third by treasury notes, but no tax receipts were used to cover war expenses.

The issuance of additional paper currency exceeded by far the amount of gold and silver coin withdrawn from circulation. The total amount of currency increased by approximately the same amount which the Reichsbank put at the disposal of the government by discounting treasury notes for its own account (see table on p. 3). Deposits on checking accounts with the Reichsbank also increased considerably. By the end of 1915 the general price level had risen 50 percent. The decreased supply of consumer goods and the increase in private incomes made it necessary to introduce price controls and rationing of various commodities. These measures stabilized prices for some time. The larger war effort of 1917-18, however, caused a new rise of prices,[2] though their increase was not so fast as the expansion of the currency circulation. This was due to the reduced velocity of money circulation, caused by changes in payment habits (especially the use of cash instead of commercial bills), the holding of larger cash reserves by the public, and the hoarding of currency for tax evasion and for use after the war, as well as to the issuance of German currency in occupied territories and speculative purchases of marks by foreigners.

1. Wagemann, Wo kommt das viele Geld her, p. 21.
2. Rist, op. cit., p. 73.

In the foreign exchange market the depreciation of the mark was less pronounced than the reduction of its domestic purchasing power. Foreign exchange controls were operating and the Reichsbank had increased its reserves by withdrawing gold and silver from circulation. The huge deficit in the balance of trade was covered by sales of gold and securities, by foreign credits, and by exportation of German currency.

The following table[1] shows the financing of war expenses and some of its effects. (The figures are cumulative from the beginning of the war to the end of each year).

	Loans issued	Treasury notes issued	Treasury notes held by R.B.	Increase in currency circulation[a]
		(in billion marks)		
1914	4.5	2.9	2.7	2.7
1915	25.	5.7	5.2	4.1
1916	46.	12.6	8.9	6.3
1917	71.	28.6	14.2	12.5
1918 (October)	96.	48.2	20.4	20.7

INDICES

End of year	Total currency circulation	Wholesale prices official	Dollar exchange rate
	1913 = 100		
1914	143	125	107
1915	166	148	123
1916	209	151	136
1917	304	203	135
1918 (October)	440	234	157

a Compared with the 6 billion RM coin and notes circulating in 1913.

B. The Post-war Deficit and Reestablishment of Free Prices

The excessive volume of currency held by the public, the large deposits in commercial banks, and holdings of government paper, on the one hand, and the reduced capacity of production and depleted stocks of raw materials and goods, on the other hand, were cause for a much steeper price inflation than had so far developed. Even if the budget had been immediately balanced it would have been a difficult task to stabilize prices and incomes at the level which they had reached during the war and to reestablish a free market.

1. Based on Statistisches Reichsamt, Zahlen zur Geldentwertung, passim, and on Rist, op. cit., and Bresciani-Turoni, op. cit., passim.

After the Armistice, however, the expansion of currency circulation proceeded even faster than during the war. The cessation of hostilities did not substantially reduce the expenses of the government, which now included the cost of demobilization, expenses in connection with the Armistice (especially payments for deliveries to the Allies), cost of provisions purchased for the population, as well as unemployment relief and the deficit of railroads and other public enterprises which had to be covered by the Reich.[1]

The facility with which deficits were financed with the aid of the Reichsbank developed a habit of extravagance in public policy. The fiscal powers of the central government, however, were still inadequate. The coalition government, under Socialist leadership, combined efforts to raise the tax receipts with plans for social reform and in this way increased the opposition of the wealthy classes to proposed income and property taxes.[2] Until the end of 1920, taxes barely covered one-third of the budget expenses. The government every month issued several billion marks of treasury notes, between one-third and one-half of which remained in the portfolio of the Reichsbank. The currency circulation increased steadily and at a more rapid rate than the advances to the government, because the Reichsbank expanded its indirect advances to States and communes as well as the discount of commercial bills. The liberal credit policy of the central bank thus was partly responsible for the inflationary currency expansion. The Reichsbank considered it a duty to supply the economy at all time with the money necessary to perform payments at the actual price level, and it refused to adopt a deflationary policy.[3] The increase in

1. Bresciani-Turoni, op. cit., p. 51.
2. Ibid., p. 55
3. Ibid., p. 82

domestic prices was attributed to the external depreciation of the mark for which the reparation payments were blamed.

Wholesale and retail prices remained under government control until the fall of 1919, and the price index did not exceed 300 percent of the 1913 level. After the release of the controls, prices within a few months rose to an average of twelve times the pre-war level, far exceeding the increase in currency circulation. This may have been the result of the smaller supply of goods and the accumulation of the consumers' needs. The scarcity of goods contributed also to the depreciation of the mark on foreign markets, since heavy imports of foodstuffs and raw materials constituted a one-sided burden on the balance of payments.[1] Exports of German goods, especially coal, were credited in part as reparations, and the total export volume was much lower than before the war. The accounts were balanced by gold exports, foreign credits and speculative acquisition of German notes and bank balances by foreigners. It is important to note that until the summer of 1921 Germany had not made cash reparation payments of any size.[2]

The decline of the mark, after the war, was slow until the summer of 1919, when the rate was about half of the pre-war parity. The signing of the peace treaty with its reparation clauses produced a psychological shock and the depreciation accelerated. In February 1920 the dollar in Berlin reached the rate of 100 marks, in contrast to 4.20 marks in 1914. After a reaction the rate fluctuated for over a year between 40 and 70 marks. During the first six months of 1921 it was fairly stable at about 64 marks. The external and internal depreciation of the mark was then very much the same. The price level reached at the beginning of 1920 remained stable until the summer of 1921, and wages slowly advanced to the same level.

1. Bresciani-Turoni, op. cit., p. 86.
2. Graham, Hyperinflation, p. 164.

At this stage the inflationary effects of the currency expansion during the war and immediate post-war period might have been considered fully consummated and a stabilization of the currency a possibility. That confidence in the mark had been restored was shown by the sale of foreign currency held by German nationals to the Reichsbank and by purchases of marks by foreigners. The government, however, did not succeed in balancing the budget, being too weak to cut down expenses and increase tax receipts adequately. Even after the tax reform of 1920, revenue did not cover more than 50 percent of the expenses. As indicated in the following table giving data with respect to the Reich budgets for the years 1919 to 1923, only a small part of the deficit during that period was caused by reparation payments.

Financial year	Income	Expenditure	Deficit	Expenses under Peace Treaty
		(in million gold marks)		
1919-20	2.559	8.560	5.999	
1920-21	3.178	9.329	6.054	1.851
1921-22	2.927	6.651	3.676	2.810
1922-23	1.488	3.951	2.442	1.137
1923 (April- Dec.)			6.538	.742

Source: Bresciani-Turoni, op. cit., p. 93 and 436-7.

Except in 1921-22, the budget would have shown large deficits even without payment of reparations. The continuous financing of the deficit by note-printing undermined currency stability, but the Reichsbank and the high bureaucracy maintained an attitude of distinct complacency towards the depreciation of the mark. The decline in the mark's value was accepted as proof that the burden of the peace treaty was intolerably high. Reactionary groups, representing industry and agriculture, welcomed the development for selfish reasons, because the inflation brought them high profits and reduced the burden of their indebtedness. Industry was specifically favored by the time lag in the adaptation of wages and other cost items to rising sales receipts in domestic and export markets.[1]

1. Bresciani-Turoni, op. cit., p. 103.

The adjustment of domestic prices and of foreign exchange rates to the increase of currency in circulation, after the price controls had been lifted, is shown in the following table[1]:

	December 1918	May 1921
	(in percent of 1913)	
Wholesale prices	245	1308
Dollar rate	197	1483
Currency circulation	550	1370
Deposits with Reichsbank	1300	1400
Deposits with Berlin banks	400	1200[a]
Deposits with all banks	b	840[a]

a December 1920.
b Not available.

C. Final Depreciation of the Mark

The period from the summer of 1921 until the summer of 1922 was the only one in which sizeable cash payments on the reparations account were made. During this time the total of reparation payments was high enough to account for the greater part of the budget deficit. In June 1921, the dollar rate in Berlin slowly began to rise, owing probably to purchases of foreign exchange by the Reichsbank for use in payment of the one billion gold marks reparations due 31 August 1921.[2] After the partition of Upper Silesia a wave of economic pessimism spread over Germany,[3] and the decline of the currency, accentuated by domestic and foreign speculation, developed into full-fledged flight from the mark. Purchases of foreign exchange by German speculators reached enormous proportions; large foreign holdings of paper marks were thrown on the market; the dollar rate in Berlin rose to 295 in November 1921, later receding to 180, which however was three times higher than the rate in May. These developments shook the confidence of the German public in the stability of the currency. To

1. Source: Statistisches Reichsamt, op. cit., passim; Rist, op. cit., Graham, op. cit.
2. Bresciani-Turoni, op. cit., p. 95.
3. Graham, op. cit., p. 166.

prevent losses from rising costs, industrial and trade groups increased their sale prices at once when the dollar moved up, whereas lower dollar rates did not affect the price level immediately.

Until July 1922, several smaller cash payments were made on the reparations account. Then cash payments were stopped. During 1922, the trade balance was in equilibrium, and the external value of the mark therefore was under no pressure except that of the flow of capital from Germany and of foreign speculation.[1] The speculation and panic were instrumental in the depreciation of the mark. Budget deficits and increased private credits of the Reichsbank and commercial banks made the price inflation technically possible. The government had to raise most of its payments in keeping with the inflated price level, but tax receipts reacted slowly to the fall of the mark, especially taxes based on income in the preceding tax period. The greater part of the budget deficit was financed directly by the printing of notes, inasmuch as the public was reluctant to invest in government paper. Nevertheless, a determined effort of the government to halt the inflation would have been successful; during each of the occasional periods of temporary stability the budget situation improved noticeably.[2] As it developed, the increase of note-circulation was not prevented, and speculation could be resumed with the aid of the Reichsbank, which greatly increased its advances on commercial bills.

The depreciation of the mark made great progress during the latter half of 1922, although no payments were made to the Allies. The decline was officially explained in terms of vanishing confidence in any improvement of governmental finances and currency, as a result of the mere existence of the peace

1. Bresciani-Turoni, op. cit., p. 87.
2. Ibid., p. 61.

treaty.[1] The occupation of the Ruhr in January 1923 gave a new impulse toward depreciation. Enormous amounts were spent by the government to finance the "passive resistance" in the occupied territory. Part of this money was sold at once by the recipients (industrial firms) against foreign currency.[2] The increased credit volume of the Reichsbank also served to finance speculation against the mark.

Since foreign exchange rates developed without any relation to economic factors, and prices automatically followed the dollar rate, it soon proved nearly impossible to print the amount of money necessary to perform all commercial and financial transactions at the inflated prices. There was a serious shortage of currency, and only the use of auxiliary money, of foreign currency and especially an enormous increase in the velocity of circulation made the price inflation possible.[3] Wages were paid daily and everybody tried to rid himself of currency and other forms of paper money as quickly as possible. Some kind of "stable money" was increasingly resorted to for actual payments, or at least for accounting purposes, and prices and wages were fixed on an index basis. The Reichsbank, nevertheless, until late in 1923 gave credit in paper marks and accepted repayment in devaluated currency, which made it highly profitable for its customers to go into debt.

The depreciation of the mark progressed so fast that both the gold value and the domestic purchasing power of the money in circulation were reduced to a fraction. On 7 August 1923, for example, this value was only 20 million dollars.[4] If the amount of currency in circulation had not

1. Ibid., p. 97.
2. Ibid., p. 106.
3. Graham, op. cit., p. 107.
4. Statistisches Reichsamt, op. cit., p. 47.

been increased at once, the speculation would have broken down and prices would have declined to a level more in line with the volume of money.[1] But the supply of marks was virtually limitless. In the books of the Reichsbank, especially, the inflation could progress without any difficulties of a technical nature. Deposits with the Reichsbank increased during the last months of 1923 so much that they exceeded the circulation of Reichsbank notes by 30 percent, whereas before the war they reached only one-sixth of the note issue.

Eventually the mark was almost entirely abandoned as a means of payment. The public was eager to accept a new currency which appeared to be based on "stable value." The dollar increased from 200 marks in February 1922 to 7,500 marks in December 1922, and to 4,200,000,000,000 marks in November 1923. In effect, the mark unit had disappeared.

The amount of currency in circulation and the assets upon which it was issued are shown in Table 1 on the following page.

D. Stabilization of the Currency

The dollar was quoted in Berlin at 160,000 marks on 3 July 1923; at 13,000,000 marks on 4 September; at 5,000,000,000 marks on 11 October and on 20 November 1923 it reached 4,200,000,000,000 marks. At this time it was decided arbitrarily to stabilize the currency because the paper mark was worth an even one-trillionth part of its pre-war value, one-billionth in the European nomenclature. However, the dollar rose even higher; in occupied Cologne it rose to eleven trillion marks. But by energetic measures the rate was brought down to the stabilization level and held there. Stabilization measures consisted mainly in keeping down the circulation of mark notes and preventing speculators from operating with the

1. Bresciani-Turoni, op. cit., p. 399.

Table 1. GERMAN CURRENCY IN CIRCULATION, ASSETS ON WHICH IT WAS ISSUED, AND INFLATION INDICES, 1921-23

End of	Treasury notes: Total issued	Treasury notes: Held by Reichsbank	Reichsbank and Loan Office: Bills and advances	Reichsbank and Loan Office: Currency in circulation	Reichsbank and Loan Office: Deposits on clearing accounts
			(in billion marks)		
1920	153	58	35[a]	81	22
1921	247	132	16[a]	122	33
1922	1495	1185	675	1293	530
			(in billion marks)		
June 1923	22020	18338	9970	17303	9953
			(in billion of billion mark)		
Nov.15 1923	192	190	42	93	129

Relative Progress of Inflation

Date	Dollar rate	Wholesale prices	Cost of Living	Wages Laborer	Currency Circulation
		Index based on 1913=1			
May 1921	14.8	13.1	11.2	11.4	13.5
May 1922	69.1	64.6	38.	28.	26.8
Nov.1922	1,711.	1,151.	446.	333.	80.
June 1923	26,202.	19,385.	7,650.	6,002.	2,865.
		(billions)			
Dec. 1923	1,000.	1,262.	1,247.	790.	82.

a Mostly credits advanced by Loan Offices to States and Communes

Source: Statistisches Reichsamt, op. cit., passim.

new money, the Rentenmark.[1] The gold value of the total paper mark circulation, on 15 November 1923, was only 150,000,000 Goldmarks; in addition, some 1,169,000,000 Goldmarks of emergency money were circulating. An unknown part of the foreign exchange hoards of the population was also used as a means of payment. Most of the emergency money had no cover whatsoever, but the lack of confidence in the paper mark was so marked that the population preferred almost any medium to the legal currency. This situation enabled the government to put the Rentenmark into circulation.

The Rentenmark, issued after 15 November 1923, by the newly formed Rentenbank, was not declared to be legal tender. It circulated alongside the paper mark at a legal conversion rate of one Rentenmark to one trillion paper marks. The total circulation was restricted by law to 2,400,000,000 Rentenmark, of which one-half was placed at the disposal of the government to cover its immediate needs, and the remaining half was to be used to finance agriculture and business. The Rentenmark had no metallic cover. It was redeemable in bonds which represented a lien imposed on all German agricultural and industrial property. Because its issue was limited and there was a relation to a stable value, the public accepted it eagerly. The rejection by the Rentenbank management of the government's request for an increase of advances, in December 1923, further strengthened this confidence.[2]

The total circulation of currency in Germany more than doubled from November 1923 to April 1924. Emergency money was replaced by paper marks issued by the Reichsbank against bills and foreign currency and balances. The gold and foreign exchange holdings of the Reichsbank increased from 500 million

1. Wagemann, op. cit., p. 53.
2. Bresciani-Turoni, op. cit., p. 348.

to one billion Goldmarks within one year, notwithstanding the large excess of imports over exports, which necessitated payments. It was estimated that outside of the Reichsbank, in 1923, over three billion Goldmarks of foreign values had been held.[1] The depreciation of the mark had wiped out the great amounts of German currency and bank deposits held by foreigners derived from speculative purchases. It also destroyed credits extended to Germany during and after the war.

The stability of the mark once more was threatened early in 1924. After November 1923 the Reichsbank resumed the extension of liberal credit to German business because it believed the country needed more money to operate. Within four months the private advances of the Reichsbank increased from 364 million to 1915 million Goldmarks. This enabled speculators to buy foreign exchange. Domestic prices began to rise and the mark rate in New York decreased by 15 percent. Thereupon the Reichsbank reduced its credits, causing many exporters and hoarders to sell their holdings of foreign currency in order to get liquid money necessary for their business. In brief, the exchange situation was relieved and the mark again reached the stabilization parity.[2] On 11 October 1924, the new Reichsmark replaced the paper currency in circulation at the conversion rate of one trillion paper marks for one Reichsmark. The larger part of the outstanding Rentenmark currency was retired within a few years, the Reichsbank taking over the advances of the Rentenbank to private debtors, while the advances to the government were successively amortized.

The exchange had been stabilized before the budget was balanced, but in November 1923, expenses were drastically reduced. In particular, the payments for "passive resistance," the main cause of the deficit, were stopped. The railroad

1. Ibid., p. 345.
2. Ibid., p. 352.

deficit disappeared when the rates were collected on a revalued basis; the funded public debt had been wiped out in the inflation. Tax receipts increased soon after stabilization of the mark. In January 1924, for the first time since 1914, budget receipts equaled expenses.

The credit extended by the Rentenbank to the government had no inflationary effects because the increase in currency circulation which it caused was compensated for by a decrease in the velocity of the money turnover. The newly printed notes simply went into the pockets of the public and increased the total volume of money in circulation to an amount more adequate to meet the inflated prices. The development of currency circulation between November 1923 and April 1924 is indicated in the following table:

Kind of Currency	Amount in Circulation (in million Goldmarks) 15 November 1923	7 April 1924
Reichsbank and similar notes	155	684
Rentenbanknotes	0	1722
Gold loan and similar paper	176	210
Emergency issues	988	266
Coins	0	63
Total	1319	2945

Source: Wagemann, op. cit., p.50.

E. Recapitulation and Political Background

The basic cause of the inflation in Germany, in 1914-1923, was the budget deficit. Though to a certain extent an unavoidable result of war and defeat, the deficit and the effects of its financing on the currency were largely aggravated by the mistakes and weaknesses of the government's financial policy. The inflation was greatly facilitated by the liberal credit policy of the Reichsbank, especially during periods of external depreciation of the currency. Excessive imports of foreign goods and substantial payments of foreign

exchange on account of reparations resulted at certain periods in a disequilibrium of the balance of payments, and depressed the foreign value of the mark. The public confidence in the national currency, already badly shaken by the progressing internal and external depreciation, was undermined further by national and international political events. An extensive flight from, and speculation against, the mark reduced its foreign value rapidly, whereas the fear that domestic prices would rise contributed to their rise in line with the external depreciation of the currency. The velocity of the circulation of money was increased and thus made hyper-inflation possible. The vicious circle was broken when the firm intention of the government to stabilize the currency was demonstrated, and the Reichsbank abstained from continuously increasing the volume of currency in response to requests of government and public. The stabilization took place after the value of the currency unit had been reduced to virtually zero, but it is certain that it could have been achieved much earlier. Granted that stabilization would have been difficult immediately after the war, when a drastic reduction of the currency circulation would have been necessary, it might have been achieved in 1920 at the latest. At that time, price controls had been abolished; the general price level had reached a temporary stability in equilibrium with the volume of circulating currency and the foreign value of the mark.

To understand the inertia of official circles in the face of the depreciation of the currency, it must be borne in mind that Germany was endeavoring to achieve a reduction of the financial obligations imposed by the Allies, asserting that the burden could not be covered by taxation. The government was anxious to demonstrate the catastrophic effects of the payments on the German economy. In financial circles the

theory prevailed, and in Nazi Germany is still officially maintained,[1] that the external depreciation of the currency was caused by the excessive burdens placed on Germany, and that inflation and budget deficits were a consequence of this depreciation. German and foreign economists have since proved that the argument of reparation greatly exaggerated the facts, and that only during a short period in 1921 was the payment of reparations a governing factor in the budget deficit and the disequilibrium in the balance of payments. The reparation policy of the Allies, however, supplied an excellent opportunity for the inflation-minded industrial leaders of Germany to realize their plans. These men also had the political power to prevent the government from drastically reorganizing the budget, and the economic power to disregard any regulations against flight of capital.

In post-war Germany the government consisted of frequently changing coalitions of heterogeneous political parties. This condition resulted in unstable political conditions and greatly reduced the power of the government. The parties of the right, representing "big industry" and agriculture, and those of the left, seldom participated in the government; but they exercised a strong influence on the policies of the moderate parties. The Social Democrats were obliged to respect the viewpoints of the radical left, whereas the Catholic Center and the Democrats combined in economic matters with the rightist parties. The Socialists reached the height of their power immediately after the revolution, in 1918, without taking full advantage of it; after 1919 the political power of the bourgeois parties increased steadily, whereas the economic power of the

1. See among others Problems Desdeutschen Wirtschaftslebens (Berlin 1937) p. 517 and p. 560.

reactionary groups had never been diminished. Nearly every government between 1919 and 1923 made serious efforts to increase the tax receipts and to balance at least the ordinary budget, but all reforms, beginning with Erzberger's plan in 1919 and ending with Hilferding's plan in 1923, proved failures because of the opposition of the rightist parties.

The conservatives were in general opposed to the Weimar Republic and to the fulfilment of the peace treaty and did not hesitate to use any political or economic weapon calculated to weaken the government and discredit its peace policy. They were aided in this by the higher bureaucracy of the government and by the Reichsbank. The Reichsbank, under Havenstein, lent itself wholeheartedly to the purposes of powerful industrialists such as Stinnes, Voegler and others. Havenstein openly fought against the treaty fulfilment policy and deferred the decision to stabilize the currency as long as possible. The inflation, which was disastrous to wage-earners and the middle classes, enabled the owners of big industry to obtain for a nominal consideration all the money they desired for modernizing their plants and extending their economic domains. Only when the danger of a social revolution became imminent, in the autumn of 1923, after the inflation had reduced to zero the debts of agricultural and industrial interests, did the parties representing moneyed interests consent to a stabilization of the currency. This time a stabilization plan succeeded; it met the approval of industry and agriculture and was put into effect with their backing. The noticeable social effects of the inflation were the rapid accumulation of large fortunes, the extravagence and ostentation of inflation profiteers, the expropriation of small capital owners and rentiers, and the poverty of large parts of

the population. For the majority of the German people the inflation left a memory of horror. The experience suffered after the last war has led them to give willing assistance to the efforts of the Nazi regime to combat the inflationary effects of the present war financing. In a work published in 1940,[1] Ernst Wagemann lays the blame for the inflation of 1923 on the reparation policy of the Allies and the "impudent" specualtive forces inherent in a liberal economy. It may be assumed that this is the general opinion in today's Germany.

1. Wo komnt das viele Geld her, Berlin 1940, p.38.

II. FINANCES OF NAZI GERMANY 1933-1943

A. Work Creation and Rearmament

During the six years from ascension to power until the beginning of the war, the Nazi regime succeeded in putting six million unemployed persons back to work, and in spending ninety billion RM for armaments[1] without causing a price inflation. Until 1935 the economic policy of the government was directed toward reemployment. Restrictions on foreign exchange operations made the German currency and credit system largely independent of foreign influences and of the withdrawal of capital funds. The "work creation" programs initiated by the pre-Hitler governments were considerably increased in scope and volume, and were supplemented by tax reductions favoring entrepreneurs specifically and by grants made to home owners to assist them in rebuilding their property.

Within two years, the Reich spent five billion RM[2] for work creation. The greater part was financed outside of the budget, by issue of "work creation bills" for 2.6 billion RM and of tax remission notes for 1.6 billion RM, valid for tax payments in future years.[3]

To prevent the flotation of issues that would obstruct the credit needs of the Reich, organized capital markets in 1933 were placed under the control of a committee headed by the president of the Reichsbank. The Reichsbank law was amended to permit the purchase of Reich bonds, and in 1934 a law was issued reorganizing the banking system. Government paper was made the foremost liquid asset of commercial and savings banks, which opened a new source of financing for the Reich. To reduce the amount of dividends paid and to make the investment in stocks less attractive, corporations were ordered in 1934 to invest in government bonds an amount equal to their declared profits in

1. League of Nations, World Economic Survey, 1939-41, p. 29.
2. Karl Schiller, Arbeitsbeschaffung, Berlin, 1936, p. 155, p. 177.
3. Wirtschaft und Statistik, 1940, p. 157.

excess of six percent of the capital. As a result, industrial corporations accumulated undistributed profits, which enabled them to finance their investment internally.

The "work creation" policy was successful in stimulating a general revival of business activity. However, prices also showed a rising trend following the increased demand for domestic and even more for foreign raw materials, the import of which had to be restricted owing to Germany's unfavorable exchange position. Since stability of prices and wages was considered necessary to prevent the rearmament program from being hampered by rising costs and shortages of materials, prices and wages were put under control, and supervisory boards were set up to control the importation and distribution of raw materials.

After 1935, the armament program made it necessary to limit private investment activities and eventually private consumption. By direct government regulation house-building and industrial construction were restricted or brought into line with the government's armament program. The financial needs of the government were given a virtual monopoly on the savings of the nation. The embargo on private issues as a rule was suspended only to permit financing of industrial corporations engaged in the manufacture of armaments. The government extended financial guarantees to encourage banks to finance expansion of such industries. In some instances it ordered industrial corporations to expand their activities into new fields or to join with other enterprises to finance new production (gasoline, artificial fibre, etc.).

Rising tax receipts (17.7 billion RM in 1938-39 as against 6.6 billion RM in 1932-33) made it possible for the Reich to cover more than half of the armament expenditure out of current revenue. Taking advantage of the liquidity of money and capital markets, the government reduced the interest rate on public and

mortgage bonds to 4½ percent, and issued yearly increasing amounts of medium and long-term paper. The methods of intermediary financing of government orders were changed repeatedly, but short-term paper could never be dispensed with and the total of outstanding short-term paper steadily increased. From 1935 until 1939 over thirteen billion RM in special bills were issued.[1] Since the banks did not buy these bills at a satisfactory rate, the Reichsbank had its own subsidiary, the Gold Discount Bank, issue promissory notes (Solo bills), to skim off the liquid funds of the banks and invest the proceeds in special bills.

In the spring of 1939, when the amount of the undisclosed short-term debt had become alarming, a short-lived "New Financial Plan" was designed. Its main point was the issue of new tax remission notes which anticipated future tax receipts. The notes were used in payment of government orders up to 40 percent of the total, and had the same legal tender quality if used by the contractor for payment of deliveries and services. Their total issue which amounted to 4.6 billion RM ceased shortly after the outbreak of the war.

Until August 1939 the Nazi government increased the medium and long-term debts of the Reich by 16.6 billion RM, the declared short-term debt by 7.6 billion RM, and incurred an undisclosed short-term debt of 13 billion RM, totalling 37.2 billion RM, apart from the issue of several billion RM tax remission notes. The greater part (approximately 30 billion RM) of the new government debt was taken over by credit and insurance institutions. The compilation of bank credits in Table 2 below, completed by figures for the monthly reporting institutions for the year 1938,[2] shows an increase in the following items:

1. Deutsche Volkswirtschaft, 3 July 1943.
2. Wirtschaft und Statistik, 2 July 1939.

Treasury bills	4,100,000,000 RM
Bills	11,500,000,000 RM
Bonds	12,900,000,000 RM
Total	28,500,000,000 RM

In view of the decrease in commercial credits during the same period, the rise in bills must be attributable exclusively to the discount of special bills, of which the Reichsbank alone had 12-13 billion RM in 1938. [1]

From 1933 to 1938, labor incomes increased by 64 percent and the total national income by 70 percent, but the output of consumption goods by only 30 percent. The expansion of money and credit was not out of line with the increase in national income. The currency circulation rose from 5.5 billion RM in 1933 to 10.7 billion RM in April 1939; but in view of the fact that 1.1 billion RM in currency had been issued in exchange for Austrian and Czech currency in the annexed territories, [2] the increase amounted to only 76 percent.

The index of wholesale prices increased by 17 percent from April 1933 to April 1939. The rise was not uniform; prices of agricultural products increased by 30 percent, those of industrial raw materials by 9 percent, and those of finished products used for consumption by 24 percent. On the other hand, prices of manufactured goods for industrial use decreased by 1 percent. The index of living cost increased by 9 percent. This index does not allow for deterioration in the quality of certain commodities. According to some estimates, the index understated the actual price movement by 10 percent. [3]

It clearly appears that the Nazis succeeded in financing all of their pre-war armament expenditures (about 15-20 billion RM per year, or 20-25 percent of the national income) by taxation

1. Deutsche Volkswirtschaft, 3 July 1943.
2. Wirtschaft und Statistik, 2 July 1939.
3. See Quarterly Journal of Economics, May 1942.

and out of the savings of the population, without inflation of the price structure. They achieved these results with a rigid tax policy, general price and wage control, systematic restriction of private spending and investment activity, and monopolization of accumulated savings for government use.

The official gold parity of the Reichsmark was unchanged. In most international transactions, however, a depreciation had developed which was acknowledged officially by the payment of premiums to German exporters. The disparity between the domestic purchasing power of the mark and its official foreign value was estimated by the Reichskreditgesellschaft [1] at 38-40 percent in April 1939. Deterioration in the quality of some German goods and shortages in the available supply are not taken into account, the comparison being based on the official price index. The increase in credits to the Reich found its counterpart in higher deposits and currency circulation.

1. Economic Conditions in Germany 1939, Berlin 1939.

Table 2. SELECTED GERMAN INCOME AND CREDITS FIGURES, 1913-37

A. Claims expressed in money (billion Reichsmark)

	1913	1929	1935	August 1939
Currency	6.6	6.6	6.4	10.8
Current account deposits	12.3	15.5	12.5	18.5
Savings deposits	23.3	14.8	18.5	26.0
Insurance	8.2	5.9	10.0	15.1
Total	50.4	42.8	47.4	70.4
Held by public:				
bonds	40.5	13.6	14.6	18.1
mortgages	25.0	6.5	6.5	-

Sources: 1913-35: Probleme des Deutschen Wirtschaftslebens, Berlin, 1937. p. 600.

Figures for 1939 calculated according to Frankfurter Zeitung, 1 Jan. 1943.

B. National income in Germany, old territory[a] 1938 (billion Reichsmark)

Agriculture		5.8	
Trade and industry, professional services		14.8	
Wages and salaries:			
Industrial	16.8		
Other	16.8		
Large salaries	9.1	42.7	
Capital income		3.0	
Rent		1.1	
Pensions and relief payments		7.6	
Private income			75.0
Undistributed corporation income			3.4
Public enterprises			1.5
Indirect taxes and social contrib. less deferred income (public source)			5.2
			-5.4
			79.7

a. Wirtschaft und Statistik, 1930, p.706.

C. Credit extended by types of instutions[a]
(in billion Reichsmark)

	1932	1937
Central banks	3.9	6.6
Postal agency	0.4	0.8
Commercial banks	15.6	20.3
Savings banks	12.7	16.1
Cooperatives	4.5	5.2
Mortgage banks	13.9	18.2
Insurance	7.2	11.9
Conversion office	0.0	0.5
Total	58.2	79.6

a According to German Statistical Handbook, 1938.

D. Credit extended by type of credit

	1932	1937
Agricultural mortgages	5.4	6.3
Other mortgages	15.7	18.2
Municipal credit	8.6	9.9
Current acct. advances	11.2	9.6
Bills	4.3	13.6
Treasury bills	1.3	2.2
Advances on merchandise and securities	2.5	1.4
Securities	6.4	15.4
Other credits	2.4	1.3
Total	57.8	77.9

The total Reich debt, including the undisclosed part, amounted in August 1939 to 53 billion Reichsmark, about 65 percent of the national income in 1938, as compared with over 160 percent in England and France at the same time. If compared with tax receipts, the government debt in Germany reached then only 300 percent of the yearly tax revenue, as compared with 800 percent in England and France. In the United States the debt amounted to only 60 percent of the national income, but to over 700 percent of the tax revenue. The relevant figures are presented in the following table.

	1938-1939 Government debt	National income	Tax receipts
Germany (billion RM)	53	82	17.7
France (billion Fr.)	414	250	54
United Kingdom (billion £)	7.2	4.4	0.9
United States (billion $)	40.4	67.5	5.5

Source: L.N. World Ec. Survey 1939-41, pp. 80,94.

In 1933 the German national debt had amounted to only 25 percent of the national income, a fact accounted for by the drastic reduction consequent to the inflation. The financing of rearmament in Germany was thus made much easier.

B. Principles of War Financing

At the outset of the war the government initiated a deflation experiment involving general reductions of wages and the transfer to the Reich of amounts saved by industry. The transfer was accomplished by means of price-reductions on war supplies sold to the government and direct payments into the treasury of a portion of the amount realized from sale of other goods. Later the experiment was abandoned, and thereafter no efforts were made to reduce incomes sufficiently at the source to bring them into line with the restricted supply of consumer goods.

Production and distribution of all goods are controlled so thoroughly that the state has no difficulty in obtaining whatever portion of the national output is desired. Reduced consumption facilities constitute an effective compulsion to save, and government regulations bar any investment possibilities other than in government paper or through bank deposits. Though the individual has retained a certain freedom in handling his unspent income, the state enjoys a virtual monopoly over savings from its control of banking. The government has consistently refrained from openly restricting this freedom further by additional taxation or the institution of forced savings. Reliance has been placed upon strict and

comprehensive economic controls to prevent the inflation which otherwise would inevitably result from the discrepancy between supply of goods and volume of money expressing demand.

Their technique of war financing is described by the Germans as silent financing, because it abstains from public campaigns for the direct purchase of Reich bonds. Liquid funds and savings accumulating with credit institutions are fully invested in government paper, though mostly of the short-term type. This results in a high percentage of floating debt. The government admittedly would prefer to sell Reich bonds directly to the investor in order to prevent the cash surplus of the nation from increasing rapidly and to facilitate post-war consolidation of the debt. However, it is considered undesirable to evoke the memories of the 1914-18 war loan drives, and the government restricts its propaganda to the advocation of saving in deposit accounts and the discouragement of currency hoarding.

So far, price inflation has been avoided; but the government has not been successful in preventing an inflation of means of payment, especially currency circulation. The German citizen has not been persuaded to deposit all of his non-spendable income with credit institutions; instead he has persisted in hoarding a sizeable and increasing part of it in the form of cash. This accumulation of cash and deposits in the hands of the public, for which no goods can be bought in legal markets, increases the pressure on price and distribution controls. The result has been a lack of confidence in the value of money among certain groups of the population which threatens the stability of the whole economic system. At the end of 1942, the government tried to reduce the surplus money stocks by a number of measures, such as discontinuation of advance payments on war contracts, sale of armament works to

private enterprise, and collection of the house rent tax for several years in advance. The results were not satisfactory, however, because the formation of savings deposits was retarded, and large bank-and-mortgage-credits were taken up by the persons affected by the scheme. The consequence was that the treasury felt obliged to discontinue for some time the issue of Reich bonds.

Various other measures to skim off the excess money, such as capitalization of the industrial assessment tax, and especially increased direct and indirect taxation, were discussed at the time. These, however, were never put into effect. The main reason for this inactive attitude of the government is the fear that increased taxation of workers' and farmers' incomes might impair their productivity, and that increased taxation of industrial profits would encounter opposition from "big business."

The rising total of currency and deposits is matched only by the rapid increase in the national debt. This development, coming at a time of large-scale destruction of the national wealth through bombing and other effects of the war, has occasioned increasing concern among the public. Confidence in the future value of the Reichsmark is at a low point and there is considerable doubt as to the security of savings deposits. It is widely believed that only confiscation of savings of inflation will be able to solve the problem of the Reich debt.

C. Price Controls

Over-all stability of prices and wages has always been one of the principles of the Nazi economic policy. There was built up before the beginning of the war a control organization which covered all but the prices of non-essential consumption goods. Control was reinforced by the price-stop order of September 1939. The imposition of a general rationing scheme

and allocation of raw materials and industrial products has thus far prevented any significant upward movement of the official price index. The attempt in September 1939 to lower the cost of war contracts by reduction of wages had to be abandoned, but the government effected reductions of war-contract costs by a reform in the winter 1941-42, which substituted for cost-plus prices a set of uniform target-prices based on the cost of an efficient producer. Production cost is controlled by the aid of uniform book-keeping and cost accounting systems, and excess profits, variouly defined, are subject to confiscation by the Price Commissioner. Since 1941 a uniform excess-profits tax is applied which does not prevent industry from making "efficiency" profits.[1] Ersatz and new products also are subject to price control. In order to strengthen the confidence in the value of money a few industrial consumer goods were reduced in price in 1942 by means of direct pressure on cartels.[2] A number of civilian articles had increased very much in price in the period immediately preceding. In 1943 price control was extended to used articles.

Though excess profits are no longer confiscated, the general rule of the war economy decree still applies, under which price reductions may be enforced if certain profits or cost items are not justified according to the principles of economy pledged to the war effort. The development of prices from 1939 to 1943 is indicated in the following table:

1. Deutsche Volkswirtschaft, November 22, 1943.
2. Economic Journal, June 1943.

	Sept. 1939	Sept. 1943	Increase in percent of 1939 prices
	Index: 1914 = 100		
Wholesale prices			
Agricultural products	107.6	118.9	10.5
Industrial materials	95.3	102.3	7.2
Manufactured goods:			
For industrial use	112.8	113.6	0.7
For consumption	136.2	152.4	11.9
General index	106.9	116.3	9.0
Living cost			
Food retail prices	121.7	132.8	9.1
Clothing retail prices	133.7	179.1	34.0
Heat, light, etc.	124.2	122.0	decrease1.8
Rent	121.2	121.2	0.0
Miscellaneous	142.0	150.4	6.0
General index	125.7	137.9	10.0

Latest available price index figures (for February 1944) do not show any substantial changes as compared with September 1943.

The pressure on armament prices kept down the index of manufactured products for industrial use, but industry was very often permitted to raise the prices of civilian goods to compensate for reduced receipts out of war contracts. The official explanation refers to higher costs of imported raw materials and domestic substitutes, as well as higher freight charges owing to the transfer of factories. Prices of textile and leather products rose the highest, followed by prices of foodstuffs, which were raised to induce higher reduction. The Reich Statistical Office acknowledged that the consumer spends more for articles of daily use than is shown by the increase in the index because he has to buy more expensive goods, as his usual choice is either unavailable or rationed. It was stated specifically that savings in the expenditure for meat, fat, coffee, cocoa, and soap are more than compensated for by higher expenditure for potatoes, vegetables, ersatz coffee, and non-essential foodstuff.

In view of the widespread shortages in all but the most essential consumer goods, the figures of the price index are representative only for the few basic commodities still available for general consumption, and for the cost of war materials.

D. Wages and Salaries

At the beginning of the war an order was issued freezing wages and salaries at their pre-war level. In order to reduce production costs, an attempt was made to reduce wage rates to, to the level of 1936 and to abolish overtime pay. The measure encountered so much opposition[1] that the former rates had to be restored. In October 1942 the wage stop was abandoned[2] in order to increase the efficiency of labor. By labor reclassification and similar measures the earnings of the worker were increased. Owing to the greater number of women and foreign workers who as a rule do not receive the same wage as the German worker, average earnings did not increase correspondingly. The following table 3 indicates the gross earnings of industrial workers[3] in 1939 and 1943:

	Sept 1939	March 1943	Increase in percent of 1939
	Index: 1935 = 100		
Hourly earnings	108.5	120.7	11
Weekly earnings	113.4	129.6	14
Index of living cost	101.0	110.5	9

For the individual worker whose earnings have followed the general trend the increased cost of living and higher taxation offset the higher earnings. In many cases, however, the income of the family expanded from the simultaneous employment of several of its members. In terms of money the German worker is doing better than before the war, a fact further indicated by the increase in deposits with savings banks, which largely represent the savings of working classes.

E. Industrial Profits

The war economy decree of 1939 subjected excessive profits to confiscation (called "surrendering") by the Price Commissioner. In 1941 a 25-30 percent surtax was substituted for the

1. League of Nations Survey, 1930-41, p. 29.
2. Deutsche Volkswirt, 12 Feb. 1943.
3. Wirtschaft und Statistik, Dec.1943.

surrendering. The surtax was levied on profits exceeding the pre-war level by more than 50 percent (since 1943 by more than 20 percent). Dividends distributed by corporations are taxed very highly if the dividend rate exceeds 6 percent of the stock capital. In consequence, corporations do not pay higher dividends and accumulate the additional profits without publishing the amount. Self-financing of the industry has been favored by this tax provision. Some indication as to the amount of profits accumulated by the German corporations was given during 1942-43 when 1147 corporations, in order to secure the benefits of the decree limiting profit disbursement, increased their stock capital by a total of RM 3,900,000,000 by the issuance of stock dividends out of such profits.[1]

F. Restrictions on Consumption

A rigorous scheme of direct rationing was imposed at the outbreak of the war on practically all foodstuffs and on a number of other articles of popular consumption. The sale of various other articles was made subject to the surrender of purchase certificates issued on stringent conditions in each individual case. Most of the non-essential goods not subject to rationing disappeared from the market as their manufacture stopped and existing stocks were sold out. The manufacture of goods for civilian needs was further curtailed in 1941, and again in 1943. Various household items have been reserved for air-raid victims, who receive special purchase certificates; but in many instances no goods are available even to these buyers. New industrial production of consumer goods is expected to cover only most urgent civilian needs.[2] Total civilian consumption is at present below the pre-war level, the reduction being much greater, of course, in the supply of industrial products than in foodstuffs.

1. Wirtschaft und Statistik, October 1943.
2. Deutsche Volkswirtschaft, June 1943.

G. Control of Capital Markets

The restrictions imposed on investment activities for civilian needs were further tightened when the war broke out. The accumulation of unusable funds and the fear of inflation induced the German public and especially industry to invest heavily in shares. As a result, stock market quotations rose by 50 percent and more until the beginning of 1942. This boom was considered extremely objectionable on psychological grounds, and the government determined to stop it. First it decreed th compulsory declaration of all shares acquired after th outbreak of the war (except for small holdings), then authorized the Reichsbank to take over such shares at the prices quoted on 31 December 1941, in exchange for blocked government paper. Eventually stock market prices were placed under a stop-order perpetuating the quotations of 25 January 1943. This drastically reduced the volume of market transactions because no one was willing to sell his shares at prices considered out of line with the estimated value. A few transactions take place at the Bourse whenever the Reichsbank sells stocks out of its manipulations funds, but the quotations are without real significance Small stockholders are thus deprived of the opportunity of selling their shares at adequate prices, while controlling stockholders are protected against intruders.

Dealing in shares not officially quoted have not yet been put under stop-order, but the authorities have advised the banks not to participate in transactions at excessive prices and

have threatened to confiscate newly acquired non-quoted shares. The suspension of stockholders' meetings in 1944 and the restrictions imposed on publicity of corporations also reduced small stockholders' rights. The following Table presents data on shares quoted on the Berlin Bourse:[1]

Date	Total of capital corporations listed	Dividends paid	Total market value of shares	Average quotation in percent of par value	Average yield in percent of market value
	(Million RM)				
June 1939	7.850	509	9.650	123	5.3
June 1941	7.650	506	14.460	189	3.5
June 1943	10.330	542	16.440	159	3.3

The nominal value of German stock capital increased in 1942/43 because many corporations revalued their assets to benefit from a change in tax law. During the war the amount of industrial bond issues increased from 513 million RM in 1939 to 1125 million RM in 1943, the proceeds being destined to finance armament investments. The total of new and junior share issues fell off considerably in 1942/43, the corporations evidently preferring to sell bonds instead of stock and thus to increase the equity value of the shares. Though industrial, mortgage and municipal bonds have no equity value the public is buying them in preference to Reich bonds. In the event of inflation the holders expect to get a higher revalorization quota than would be likely for government paper or deposits. Stop-prices are now being enforced, by voluntary agreement of the banks, at 102.5 percent for mortage bonds and 110 percent for industrial bonds. This is very high since new issues may not be sold to the first buyer above 102 percent and the bonds are mostly redeemable at par after a few years. The irregularity of the market is shown by the fact that 3.5 percent Reich bonds are quoted at 99¼ yielding 3.6 percent, whereas 3.5 percent

1. Wirtschaft und Statistik, October 1943.

Bavarian bonds and Reichsbahn bonds are quoted at 103 percent, and rarely available.

H. Iron Savings and Business Deposits with Treasury

The so-called "iron-saving" system is one of the few cases in which the government tried to bind purchasing power by a direct agreement with the income-recipient. Wage and salary earners of German nationality may arrange for a certain amount, not over 39 RM per month, to be deducted from their payroll. No taxes are paid on the amount saved, but the savings are blocked until after the war. Since only 4 million persons are saving in this way, the scheme seems to be voluntary. An amount of 70 - 80 million RM per month is saved, which adds up to less than 1 billion RM per year. A great part of the iron savings is deposited with the big banks, the balance with savings banks.

The promise of tax privileges induced industrial firms to deposit, with the government, funds accumulated for renewals which had to be postponed until after the war. No interest is paid by the treasury on these Betriebsanlageguthaben. which total 587.6 million RM. A similar deposit constitutes the Warenbeschaffungsguthaben amounting to 177 million RM. Such deposits are no longer accepted.

I. Foreign Trade and Exploitation of Controlled Countries

Government control of foreign trade and exchange before the war had reached such a stage of perfection that no changes in the organization were necessary when the war began. On the contrary, official controls were somewhat liberalized because semi-official organizations were given a monopoly in most trade relations. By its military successes Germany, apart from the enormous war booty amassed at the very beginning also was enabled to impose a system of trade equivalent to outspoken

exploitation of the defeated nations.

German "purchases" first of all were favored by over-valuation of the Reichsmark. Secondly they were financed by occupation levies and by credits in the form either of balances in clearing accounts or of sales of German government paper to local banks. German currency was not put into circulation in occupied territories. Instead, a new currency was issued, the Reichskreditkassenscheine, covered by an obligation of the Reich. The yearly total of occupation levies was estimated at 14 billion RM for 1942, and at higher figures for 1943 and 1944, because of increased French and the new Italian payments. The total German debts in clearing accounts were estimated by various sources at about 10 billion RM at the end of 1942. These increased further in 1943, when more war contracts were placed outside of Germany and more foreign workers were employed inside the Reich. The remittances of the latter are never paid actually by the Reich. Sales of German government paper to Dutch and Czech banks totalled 1.5 billion RM in 1942.[1] Occupation currency, circulating mostly in the Eastern districts, amounted to a total of 2.9 billion RM at the end of 1943. In addition the Reichskreditkassen owed 6 - 7 billion RM to central and other banks in occupied territories.[2]

Contributions and credits received from other nations are indicated in the following table:

According to League of Nations Memo PEF 9, of March 1943:	1940	1941	1942
	(in billion Reichsmarks)		
Occupation cost and similar payments	6 - 7	11 - 12	13 - 14
Increase of clearing balances	1	4 - 5	6 - 7
According to Bankwirtschaft of June 1943:			
Advances of Reichskreditkassen:	1.5	3.0	1.5
Clearing balances and sales of Reich paper to foreign banks	1.5	6.0	7.0

1. Civil Affairs Handbook, Germany -- Money and Banking.
2. Dispatch Bern No. 494, 24 January 1944.

In this way the Reich financed the greater part of its imports and the local expenditure of its armies and other organizations. To pay for that part of the imports coming from neutral sources and to maintain the economy of the satellite nations, a certain volume of exports had to be kept up. According to Funk, this volume is near the prewar level.

Before the war, premiums at varying rates were paid to German exporters to allow them to compete on world markets. The rates of exchange established by the German government betwee the local currency of an occupied territory and the Reichsmark resulted generally in an overvaluation of the latter. In some cases, especially Austria and the Sudetenland, the value of the mark was reduced somewhat as compared with the previous legal rate, but as a rule the legal value of the Reichmark was increasec in the case of France by 14 percent, for example, which resulted in an overvaluation of the Reichsmark by 100 percent.[1] Similarly, the former discount of the Reichsmark in the trade with Rumania, Yugoslavia, etc., was reduced during the war.

The enormous amount of German purchases in all occupied and satellite countries brought about such a price inflation that local prices in those countries are at present as high or even higher than in Germany, calculated at the legal exchange rate. In France, the wheat price in 1939 was 197 frcs. per 100 kg., about 34 percent below the German price for wheat. By 1943 the French price had increased to 410 frcs., roughly equivalent to the German price, notwithstanding the devaluation of the franc. The same applies to Slovakia, Hungary, and Rumania. In Greece prices increased so much that Germany had to depreciate the local currency by charging a premium for German goods and using the proceeds to reduce the cost of German imports. In contrast to the prewar situation, prices inside Germany are now lower than prices in the neighbor countries and German importation

1. League of Nations Survey 1939/41, p. 154.

is hampered by this development. To prevent the domestic price level from being influenced by higher prices of imported goods, various devices are used in Germany, such as subsidies paid to importers or transfer of the increased cost to the price of other goods. Prices of imported goods were subjected to official regulation by the decree of 15 July 1937. Export prices are determined according to the country of destination, in order to offset the higher cost of merchandise imported from there.

J. Budget Expenditure and Revenue, 1939 - 43

Publication of full budget figures was stopped by the Reich as early as 1934. Occasionally, however, official spokesmen announced the total of government expenditure for a particular year. These figures can be brought into line with the regularly published total receipts of taxes and customs, and the increase in the public debt, as indicated in the following table, covering the fiscal years 1 April to 31 March:

Period	Total expenditure	Ordinary revenue	Borrowing
	(in billion Reichsmarks)		
1939/40	48.7	27.5	21.2
1940/41	74.8	37.2	37.6
1941/42	98.4	46.0	52.4
1942/43	124.3	68.7	55.6
1943/44 estimates	136.0	60.0	76.0

Source: Berliner Boersenzeitung, 1 January 1944

The figures for the last two years are not fully comparable with those of the preceding years, because they include various special recurrent and non-recurrent revenue items which formerly were not reported. The previous years show expenditure and revenue figures higher by several billion RM each. In 1942/43, the revenue figure included 8 billion RM advance payment on the rent tax. Ordinary revenue includes also contributions of occupied countries; for details see above, page 36.

K. Ordinary Revenue of the Reich

	Taxes and customs (published) (in billion Reichsmarks)	Foreign Contributions (estimates)
1939/40	23.4	1.0
1940/41	27.2	7.0
1941/42	31.9	12.0
1942/43	34.7	15.0
1943 April-Sept.	17.7	8.0

Recurrent domestic revenue from other sources than taxes and customs amounted to 5 - 10 billion RM yearly. In contrast to the situation experienced in 1914, the German fiscal system in 1939 was fully adequate to the task of financing a sizable part of the war cost from tax receipts. The only new taxes were a 50 percent war supplement on the rates of the income tax, and supplements to the tobacco tax and beer tax. Further, provincial governments and municipalities were ordered to pay a war contribution to the Reich yielding about 2 billion RM yearly. In 1941, the corporation tax was increased. The gross figure of Reich borrowings includes foreign credits totalling roughly 25 billion RM at the end of 1943 (see above page 31). On the other hand, the repayment of the hidden pre-war debt (special bills), at the rate of approximately 3 billion RM yearly, does not appear in the above statement. There are, of course, various new hidden debts, especially the army finance certificates, guarantees given by the Reich to banks in connection with unpaid contracts and contracts in progress, and armament orders. Their total amount is not known; the estimate of a Swiss paper (100 - 150 billion RM)[1] seems to be exaggerated.

L. Public Debt

The published Reich debt increased as follows from 1939 to 1943 (in billion RM):

1. Despatch Bern No. 547, 27 January 1944.

	August 1939	December 1943	Increase
Pre-1924 debt	3.2	2.4	dec. 0.8
Long and medium term	20.6	107.2	86.6
Short term	9.1	142.3	133.2
Foreign debt	1.2	1.2	0.0
Total debt	34.1	253.0	218.9
Tax remission notes	3.1	1.0	dec. 2.1

During 1943, more than one-third of the new debt was in the form of short-term paper since the government was unable to increase its sales of bonds, although total credit needs expanded because of the intensified war effort and the air-raids. The yearly increase in the debt is indicated in the following table: (in billion RM):

	1940	1941	1942	1943
Long-term debt	16.1	21.2	23.4	23.3
Short-term debt	18.7	27.8	53.4	46.3

The floating debt is now increasing by 5 billion RM monthly; the long-term debt by 2 billion RM. Reich bonds are issued in two types, yielding 3.5 percent interest. The regular Treasury certificates, repayable within 22 years, are sold at 99.25 percent to insurance institutions, business firms and private investors. The other type, called LI-loans (liquidity loans), repayable within 30 years, are sold to savings banks and insurance institutions for which they constitute an investment which is obligatory to some extent. Recently LI-loans have been issued in form of a limited term annuity loan of 6 percent which covers interest and redemption. No bonds are printed to represent Reich loans, but the investors receive credit in the Reich Debt Register.

To finance war expenditure the Reich began to issue rediscountable Treasury bills in November 1939 when the issue of tax remission notes became impracticable. In 1940 the Reichsbank lowered its discount rate to 3.5 percent as a first step towards a systematic cheap money policy designed to lighten the burden

of war financing. The interest rate of government paper was reduced. Short-term paper is now issued in the form of Reich bills due after 3 months and of "non-interest-bearing" treasury notes due after 6 to 18 months, sold at a discount to yield 2 1/8 to 2 7/8 percent interest. A special form of short-term debt is the advance granted to the Reich by the main office of the Reichskreditkassen (9 billion RM, at the end of 1943) and the temporary credits of the Reichsbank, usually less than 1 billion RM. The Reichsbank extends most of its government credit by purchasing Reich bills. Reich bonds are purchased only if this is necessary to uphold market quotations.

The average maturity of the floating debt is six months. Thus, over 20 billion RM fall due for repayment every month, and new paper is placed with the holders of maturing notes. There is no doubt that in event of difficulties of prolongation the Reichsbank would be used to finance repayment.

The total debts of municipalities can be estimated at 10 billion RM; the debts of states and provinces at 2 billion RM.

M. Inflation Potential

The total of private incomes after tax deductions considerably exceeds the amount of goods available for civilian consumption at prevailing prices. In addition, industry and trade accumulate money reserves out of the liquidation of stocks and the postponing of repairs and renewals, the cost of which is included in the price of their products. The total of these voluntary and involuntary savings was estimated at 60 - 65 billion RM in 1943, as against 50 - 55 billion RM in 1942 and 11 billion RM in 1938.[1] Those amounts invested in Reich bonds can be considered permanently bound; in the form of savings deposits they are temporarily sterilized but after the war again will become active purchasing power; in the form of currency and checking (current

1. Deutsche Boersenzeitung, 9 February 1944, Frankfurter Zeitung, 1 January 1943.

account) deposits they constitute the "inflation potential" which is only prevented from affecting prices and the distribution of goods by the working of official controls.

From this point of view the Nazi method of war financing is not satisfactory, because currency and current-account deposits represent a high percentage of the total increase in money claims held by the public. The small amount of bonds sold directly to the investor indicates one of the flaws in the system.[1]

N. Accumulation of Money Claims

Though national income increased and private spendings were restricted from 1940 to 1943, the issue of Reich bonds did not expand much until 1942. As a result of the air-raids the general tendency to accumulate liquid funds was strengthened during 1943, and currency circulation and bank deposits other than savings deposits accounted for a much greater part of the "saved" amounts than before. The annual increases in various categories from 1940 to 1943 is indicated in the following table:

Yearly increase in	1940	1941	1942	1943
	(In billion Reichsmarks)			
Savings deposits	9.2	14.5	20.0	23.3
Long-term debt	16.1	21.2	23.4	23.2
Currency circulation	2.3	5.5	5.0	9.7
Current account deposits	8.7	8.1[a]	5.6[a]	9.0
Short-term debt	18.7	27.8	35.4	46.3
Reichsbank credit	4.1	6.3	7.6	12.1

a Excluding foreign balances.

Estimates of the accumulated money claims at the end of 1938 and 1943 are indicated in the following table:

1. Bankwirtschaft, December 1943.

	End of 1938	(in billion RM)	End of 1943
Currency	10.4		37.
Balances with Reichsbank	1.5		8.2
Current account deposits	18.5		52.0
of which with six- commercial banks	5.8		18.0
saving banks	2.9		11.6
Savings deposits	26.0		95.5
of which with commercial banks	1.5		8.0
Savings banks	19.7		65.5
credit cooperatives[a]	6.0		21.0

a. Includes current account deposits.

According to Deutsche Volkswirtschaft of 3 November 1943 bonded claims were as follows:

Reich loans	100.0[a]	billion RM
Mortgage and communal bonds issued by banks	16.1	billion RM
Industrial bonds	4.0	billion RM
Provincial bonds	1.75	billion RM
Municipal bonds	0.6	billion RM
Reichsbahn and Reichspost bonds	3.0	billion RM
Total	125.0	billion RM

a. Of which only 4 billion RM in stock form, the balance in form of entry in Reich debt book.

O. The Role of Credit Institutions in War Financing

According to independent German and American estimates, purchases of Reich bonds and treasury paper by individual investors and business firms other than credit institutions account for less than 10 percent of the debt contracts during 1939-1942.[1] These purchases decreased in 1943.

1. Bankwirtschaft, June 1943, and Civil Affairs Handbook, Germany, Money and Banking.

Prior to the end of 1943, credit and insurance institutions financed approximately 95 percent of the public credit needs out of foreign funds, domestic savings, and by increase of the money volume. According to types of credit institutions, credit was supplied as follows:

1. Out of Foreign Funds.

The Reichskreditkasse advanced to the Reich, in the form of short-term credit, approximately 9-10 billion RM until December 1943, as the countervalue of 2.9 billion RM occupation money in circulation and over 6 billion RM deposits received from banks in occupied territories.

The Verrechnungskasse (Clearing Office) purchased treasury paper for an estimated 12 - 15 billion RM, the countervalue of foreign claims for goods and services purchased by Germany in excess of her own exports and the contributions exacted.

Prior to the end of 1942, the Konversionskasse (Conversion Office) purchased Reich paper for 200 million RM out of blocked payments in favor of favor of foreign creditors.

Dutch and Czech Protectorate banks acquired Reich paper for over 5 billion RM until the end of 1943. German currency is legal tender in both countries. The central banks, instead of accumulating clearing account balances, are entitled to buy government paper.

(2) Out of Domestic Savings and By Increase of Money Circulation:

German credit institutions and other German investors acquiredlong term government bonds for the following amounts:

	1940	1941	1942	1943
		(in billion RM)		
savings banks	6.1	7.5	10.4	12.9
credit cooperatives	1.5	1.9	2.4	3.0
banks	2.7	2.0	sold 0.7	sold 0.9 (est.)
all credit institutions	10.3	11.4	12.1	15.0 (est.)
insurance companies and other investors	6.3	9.6	12.0	8.2 (est.)
Total bond purchases	16.8	21.0	24.1	23.2
of which LI-bonds	8.3	7.9	9.0	12.0
regular bonds	8.5	13.1	15.1	11.2

The above figures are estimates of the Bankwirtschaft, quoted in the Berliner Boersenzeitung of 1 January 1944, and completed by estimates for 1943, based on figures published in the same paper on 9 February 1944.

Savings banks and other credit institutions do not purchase Reich bonds for the full amount of the savings deposits received, instead they increase their cash reserves in the form of deposits with clearing banks and the Reichsbank. Savings banks, for example, acquired 38 billion RM bonds and increased their balances by 19 billion RM, during 1939-1943. The clearing banks and the Reichsbank invest the funds held entirely in short-term government paper.

Out of the total short-term debt of 142 billion RM at the end of 1943, foreign funds had financed 25 to 30 billion RM leaving some 115 billion RM for domestic funds. The Reichsbank held 41 billion RM, commercial banks and the savings banks system over 20 billion RM each, cooperative banks 6 - 8 billion RM, a similar amount was held by the Postal system and the balance by other investors. Part of these holdings were financed by savings deposits, part by increased currency circulation and checking deposits. (See page 43 for the respective figures.)

The share of Reich paper among all credits and investments of German financial institutions can be estimated at 75 percent at the end of 1943 as against 40 percent in 1938. The figures vary, of course, for each group of institutions.

Savings banks directly and indirectly held 66 billion RM Reich paper, over 85 percent of the 77 billion RM deposits. Other assets, mostly mortgage loans, amounted to 11 billion RM.

The Postal checking and savings system with roughly 8 billion RM deposits held government paper exclusively.

The five largest Berlin banks held 12 billion RM Reich paper, over 60 percent of the roughly 19 billion RM deposits. Other assets can be estimated at 7 billion RM. The Reichsbank held virtually nothing but government paper.

P. Credit Policies of Banks

The restrictions on private investment activities and the accumulation of cash among all groups of the population deprived the German credit institutions of any investment possibilities except financing of armament manufacture and war expenditure. German agriculture is reducing its debts slowly, and mortgages on houses in cities also are being repaid. German municipalities and provinces were not allowed to contract new debts. Early in 1944 municipalities were authorized to take long-term credits from savings banks to finance public works necessary for prevention or removal of emergency conditions caused by the war, such as improved air-raid and fire protection, construction of emergency and replacement dwellings, clearing up of destroyed areas, etc.[1] The Allied air-raids also increased the credit needs of industry, which formerly had been able to finance a great part of its expansion from accumulating profits and by issuance of bonds. The German banks finance the reconstruction of damaged plants before compensation is received from the Reich. They also financed the considerable cost of plant relocation. New credits also are being extended for the adaptation of armament production to the changing war requirements,

1. Despatches from Bern of 29 February and 7 March 1944.

and to finance monopolistic trade organizations as well as the Reichsstellen, which set up stock piles of materials. Nevertheless, commercial and industrial credits account for a smaller part of the credit total than before the war, whereas Reich paper has increased very much, tenfold for the large Berlin banks. Much of the industrial credit is investment credit, but the banks were able to safeguard their liquidity by the Reichsbank's promise to rediscount bills which the banks are authorized to draw for the purpose of mobilizing such credits. The security of the advance is reinforced by Reich guarantees, particularly to factories manufacturing new materials and credits for enterprises in occupied territories. To increase their liquidity, the large banks reduced their holdings of Reich bonds during 1942/43 acquiring short-term paper for their new funds, especially the three-month Reich bills rediscountable with the Reichsbank. They have also accumulated large deposits with the Reichsbank, in order to cope with actual and possible repercussions of the air-raids. As a result of this liquidity policy the Berlin banks will be able to convert at least 50 percent of their assets into cash on short notice. These enormous amounts doubtless will be put into action by the banks and their customers when the opportunity arises, i.e., when price, distribution, and investment controls are abolished.

Q. Circulation of Currency

During the war small copper and nickel coins were replaced by aluminum and paper money. Silver coins are being hoarded. It appears that the public in the main refused to part with its holdings of 1 and 2 pfennig copper coins (originally issued for 19 million RM) remembering that this type of coin had been fully revalued after the inflation of 1923.

At present the Reichsbank is issuing notes for RM 5 and higher; the Rentenbank, notes for RM 1 and 2; and subsidiary coin

is issued directly for the account of the Reich. The following table indicates circulation of currency at the end of the respective years:

	1938	1939	1940	1941	1942	1943
Notes:			(in billion RM)			
Reichsbank	8.2	11.8	14.0	19.3	24.4	33.7
Rentenbank	0.4	1.0	1.1	1.3	1.3	1.5
Coin	1.8	1.7	1.6	1.7	1.7	1.8
Total	10.4	14.5	16.7	22.3	27.4	37.0
National income	88	95.	100	115	122	130
Currency circulation in percent of national income	12	15	17	19.5	22.5	28.5

At the end of 1943 the German public held cash for more than one-fourth of the yearly income, in contrast to one-tenth in 1937. Officially the increase is ascribed to the expansion of territory, increase in the number of wage earners, increased earnings of many workers, and payment of allowances to soldiers' families, veterans, air-raid victims, and others.[1] Allowance is made for most of these factors in the comparison of currency circulation with the national income.

The increase in the circulation, apart from a few billion RM, necessary for the larger turnover and the higher prices and incomes, is a result of hoarding and desire of the public to hold liquid assets. The Allied air-raids have increased this desire. In a sense the additional circulation is filling the genuine need for liquidity felt by workers and business firms affected or threatened by air-raids and evacuation. However, the money volume is excessive and liable to affect the price and income structure unless countermeasures are taken. If the same percentage of circulation is applied to national income for the year 1943 as existed before the fall of 1938, viz. 10 percent, the result is a "normal" circulation of 13 billion RM and an "excess" circulation of 24 billion RM.

1. Funk's speech, FCC Daily Report 9 February 1944.

R. Checking (Current Account) Deposits

Until the end of 1942 the increase in currency circulation was paralleled by an expansion of deposits in drawing or current accounts, with commercial, saving and cooperative banks, as illustrated in the following table:

	August 1939	December		Increase in percent of August 1939	
		1942	1943	1942	1943
	(in billion RM)				
Currency circulation	10.8	27.3	37.0	153	240
Deposits in current accounts	18.5	42.9	52.0	132	180

During 1943 current account deposits did not increase so fast as the circulation of currency. The volume of such deposits is not fully indicative of the amount of bank money available to the public, however because in Germany payments without cash[1] are not limited to the amount of the party's credit balance on the bank's books but often are permitted in excess of this balance and thus bring the account into the red. The volume of bank transfers, of course, is limited by the amount of liquid reserves held by the banks as a whole, and these reserves have increased during the war, especially in 1943. The reserves are held primarily in the form of deposits with the Reichsbank; secondarily in the form of rediscountable bills like Reich bills, "Dego-bills" (issued by the Golddiscountbank), and "Mefo-certificates" (issued by the Reichsbank to represent "special bills"). In addition, the banks have rediscount promises of the Reichsbank for credits granted to finance armament projects.

Deposits with the Reichsbank not only constitute cash reserves for the banking system but compose the funds circulating in the Reichsbank clearing system. The turnover in these accounts more than trebled from 1938 to 1943, but the average turnover per 1 RM deposit decreased greatly. The same applies to the four other clearing systems existing in Germany, namely the system of the commercial banks, the system of the savings banks (called "Spargiro"), the system of the credit

1. Payments without cash are as a rule not made through checks but in the form of transfer orders (called Giro orders). Upon receipt of these orders the bank debits one account and credit the other account or arranges for a credit entry to be made by the bank where the other party has an account.

cooperatives, and the postal Giro system. All of these systems operate along the lines outlined above, namely by executing money transfer orders of customers by book entries without use of cash. Owing to the expansion of deposits on current accounts, from 1938 until 1942, the average turnover decreased in the Deutsche Bank by 40 percent, and in the savings banks system by 33 percent.

S. Purchasing Power of the Reichsmark

The Reichskreditgesellschaft, a leading German bank, in the fall of 1940 calculated the domestic purchasing power of 1 RM as equivalent to 24 cents in the United States.

The comparison was based on the assumption that the relation of price levels in the two countries in 1929 was correctly expressed by the then official exchange rates. The nominal parity of the Reichsmark was, and still is, 40 cents. Its real purchasing power was, therefore, 40 percent below the parity. Because of the increase of American prices, compared with the stability of German official prices, the disparity is smaller at present. This comparison, of course, is not entirely conclusive because of the basic shortages and quality deterioration in the German supply; but it might be representative of a number of goods in the wholesale trade and especially of the great part of the German production of goods which go into the war effort.

The German people do not have much confidence in the stability of the value of that part of their money which cannot be spent within the ration quotas. The disregard for this money that has developed among the population is shown by the extremely high prices paid for non-rationed goods, black market operations, excessive spending for pleasure on the part of the wealthy, and the unreasonable amounts often verging on bribery given as tips. Though afraid to contravene regulations, openly, everyone is trying to amass as much goods and "real values" as possible. Prosecutions for infringement of price regulations are frequent.

The control of distribution however is still efficient enough to prevent withdrawals of large quantities of goods from regular trade channels. The present turnover in black market operations, according to all indications, is not very great.

T. Barter

The shortage of durable and semi-durable consumer goods caused barter operations to spread. For some time it seemed probable that barter would become instrumental in breaking the price and distribution controls. The government at first tried to prohibit all barter trading but it soon recognized that barter of non-rationed goods, such as household articles and used clothing, would be helpful in mobilizing, for immediate use the reserves of semi-durable goods held by the population.

To prevent black-market operations from being conducted in the form of barter and to bring this type of trade under government control, special barter halls were established, mostly by the municipalities in former pawnshops. In other cases retail shops were designated as authorized barter centers. There official appraisers establish the price at which each article is to be exchanged against another.[1] It was recently stated that 23 barter shops were opened in Berlin, which seems to prove that these barter markets do not have much importance in the total dealings with consumer goods. Barter in rationed goods and especially barter between dealers and manufacturers is strictly forbidden because it is equivalent to an infringement of distribution controls.

U. "Real Values"

German papers criticize in strong terms the desire of some people to acquire "real values," such as shares and landed property. They advocate special taxes on such assets acquired after the beginning of the war so that the buyers will not be better off than those investors who put their savings in banks or bonds.[2] It is

1. Frankfurter Zeitung, 5 August 1943.
2. Essener Nationalzeitung quoted in FCC Analysis, 16 December 1943.

difficult at present to find any investment in Germany other than currency, bank deposit, or government paper. Building activities have been restricted for a long time, and transactions in real estate are subject to license, making sales at high prices impossible. Foreign exchange operations are under strict control. Stock market dealings are limited by the price stop-order and the threatened confiscation of larger blocks of shares acquired after 1939. Antiques, objects of art, paintings, rare postage stamps, and similar objects are the only "real values" which give the owner a certain chance of safeguarding his property in event of inflation. The prices of these items have risen beyond all limit. According to some reports, it is planned to extend price control on rare postage stamps to stop this kind of speculation. Since transactions in collectors' items do not reduce the amount of money seeking investment the competitive bidding rarely can be stopped.

It is evident the German public is trying by every possible means to escape the threatening depreciation of money and money claims, and that the government in turn is taking various steps to make such action impossible or impotent. As yet there are no indications of a repudiation of the currency.

V. Foreign Quotations for German Currency

The prices paid for German coin and banknotes in neutral countries cannot be taken as a measure of the real value of the German currency. Some German money is still brought out of the country (illegally), and, it is known that the German government has sold its own paper money in foreign markets to acquire international claims. Price movements are overemphasized by speculation circles which especially in Switzerland are very active. Swiss quotations of German currency show silver coin 21-23 Swiss francs for 100 RM, paper mark 12-14 Swiss francs for 100 RM, traveling checks 85 Swiss francs for 100 RM, in contrast to a legal parity of 172.5 Swiss francs for 100 RM.[1] But these figures do not begin

1. Neue Zuricher Zeitung, 4 January 1944.

to show the extent to which the German military outlook is discounted in Switzerland, the claim of one information source notwithstanding.[1] If the Reichsmark notes are at present only 7 Swiss francs for 100 RM against 13 Swiss francs a few weeks earlier, it simply means that oversupply and speculation pushed the price down that far, and possibly also that some people (the buyers) do not expect the depreciation of the Reichsmark after the war to go below that rate, which is equivalent to $1.60 for 100 RM, or 4 percent of the pre-war value.

The following transactions will illustrate this statement: A 100-RM banknote, bought in Zurich for 7 Swiss francs is worth 2000 French francs in France. This amount if smuggled out of France can be sold in Zurich for 30 Swiss francs, at the rate of Swiss francs 1.5 per French francs 100. Similar, but more profitable transactions were possible as long as Reichskreditkassenscheine were legal tender in France, because their Zurich value was lower than that of the regular German currency.

1. OSS Report TB-84, 11 February 1944.

III. THE INFLATION PROBLEM AFTER DEFEAT OF GERMANY

A. Present Equilibrium

The German price and income system can be expected to remain in its present unstable equilibrium either until the political system breaks down or until the distributive system is thrown into permanent disorder by some strong cause. Until then, the consistent and comprehensive government controls will prevent inherent inflationary tendencies from becoming active. To all practical purposes, there is at present no price inflation in Germany, because (1) the supply of food is sufficient to cover basic needs, and is distributed equally at official prices; (2) prices of rationed goods, rents, and services are stable; (3) only a small part of all transactions is carried out at inflated prices. On the other hand, there is an inflation potential, which consists of the following factors: (1) private consumption has been reduced, whereas private incomes have increased owing to intensified production for war purposes; (2) taxation covers only a part of the war cost; (3) unspent incomes and proceeds from liquidated stocks are not invested in government bonds but in currency and bank deposits; other investment possibilities do not exist; (4) there is a great lack in the supply of durable and semi-durable consumers' goods; (5) prices of second-hand goods, collectors' articles, and the few items available on black markets have increased considerably.

Money without a purchasing certificate has no purchasing power and is unspendable. Comprehensive market controls prevent it from influencing price levels and the distribution of goods. The inflation danger remains however, for this surplus money has not been completely

neutralized, in spite of the efforts of the government to effect this.

B. German Post-war Plans

It still would be technically possible to re-establish a free market on the present price level, or at least to reduce controls and expand supplies at official prices. But to dispose permanently of the threat of inflation, the surplus cash reserves must be reduced. German economists are confident that once their country has won the war it will be able to expand production of civilian goods rapidly, to supply the domestic populations and even to export great quantities of goods at pre-war prices. But they consider the inflation potential represented by surplus cash reserves an urgent problem which must be solved if the war economy is eventually to be transformed into the normal, i.e., free, system.[1] Lately the German economic press has published a number of articles and studies in which the methods of post-war adjustment of currency, prices and the government debt are discussed. The ideas advanced by these professional economists parallel some of the alternative solutions discussed in this paper.

In case Allied fiscal policy calls for the prevention of inflation, an Allied program may be put into force either directly through MG or indirectly through the national government. The policies suggested below are presented without reference to the executive authority which may put them into effect.

C. Dangers of Moderate Inflation

It is sometimes urged that a controlled,"moderate" inflation of prices would be desirable in order to bring the total of currency and deposits into a more normal relation with the nominal national income. The excessive circulation

1. Bankwirtschaft, 1 December 1943.

of money would thereby be reduced. The difficulty, of course, lies in stopping inflation at a predetermined level.

Once prices and wages have begun to spiral upward, with cause and effect interacting, there is great danger that the movement will become uncontrollable. In addition to the accumulated money reserves, new credit would expand the currency circulation and the velocity of turnover would also increase.

An equally serious difficulty is that inflation disrupts the price and income system and consequently the social pattern. Prices never rise in a uniform manner. Some products go up in price rapidly; others show only a moderate increase, depending on the particular market situation. Living costs increase less than wholesale prices or even retail prices. On the whole, wages trail rising living costs, but workers in a few industries might be able to bargain successfully for adequate pay. Speculators and business men as a class make large and easy profits. Even after stabilization of the over-all price level following inflation, the price and wage system remains highly unstable. Continuous adjustments are necessary. Due to numerous changes in property relations, annihilation of small savings and alterations in the tax system during the period of inflation make the distribution of national income and the tax burden much more unequal than before the inflation. Social frictions and political unrest are thereby increased.

A runaway inflation in Germany would be attended by grave social consequences. Any government therefore will have to use all means to prevent a repetition of the 1919-23 experience. Encouragement of moderate inflation would only further increase the risk of runaway developments. A depreciation of the mark to a fraction of its present value would be undesirable because of the opportunity this presents

for speculators and because of the danger of the concentration of wealth in a few hands, and the annihilation of small savings.

D. Provisional Exchange Value of the Mark

The Allied governments from the outset will face the problem of the future mark exchange parity, although for some time to come no strictly commercial transactions can be expected between Germany and other countries. The German public will be anxious to discover whether the government intends to depreciate the German currency and to what extent. Few, if any, expect the mark to retain its former value. The exchange value of the mark against the dollar, the pound, or the currency used by the occupation army will be taken as an indication of its future value. If the value of the mark is set low, prices immediately will tend to increase to a fictitious parity with American and British prices. It should be noted, however, that this tendency will probably be supported only by the force of speculative investment in merchandise stock. Commercial exports stimulated by a low mark rate will probably be made impossible by Allied control of foreign trade.

The value of the mark as set up for conversion of soldiers' pay will influence its domestic purchasing power. Another factor will be the price at which foreign supplies are sold. Both rates must be carefully established if speculative elements are not to find support.

Comparison between the official German price level and American prices reveals that the overvaluation of the mark, estimated before the war at 40 percent has been reduced as a result of the increase in our prices. At official prices 1 mark buys roughly as much as 30 cents in the US, against 40 cents legal parity. Based on wholesale prices the

difference may be even smaller. This comparison, however, does not take into account the lower quality of many German products.

The inflationary elements in the German economic system might prove too strong to assure that a parity based on comparison of official prices can be held in the long run. To some extent this applies also to a parity which takes a moderate price increase into account, as would, for example, the rate of 25 cents for 1 RM, which is close to the parity of the two currencies before devaluation of the dollar. German prices would have to increase by approximately 20 percent to reach actual parity with our prices.

A dangerous possibility would be to adopt a very high rate of depreciation for the mark; for example, a rate based on the price paid for German banknotes in Zurich (7 centimes, equivalent to 1.6 US. cents, for 1 RM), Lisbon, Stockholm, or the prices paid on German black markets for dollar or Swedish kronen-notes, gold, or rare articles. None of these prices is indicative of the future price level in Germany, but it is evident that by establishing a high rate for the dollar and the pound issued by the occupation armies the inflationary tendencies will be strengthened.

It is important to recognize that since private commercial transactions in both goods and claims will probably be forbidden at first by Allied authorities, the significance of the initial foreign exchange value assigned the mark is almost wholly psychological. Heavy weight in the choice of a rate should therefore be given to the probable impact of the rate on internal tendencies to merchandise speculation in Germany.

E. Control of the Spending of the Occupation Force

The funds spent by an occupying force have, as a rule,

an inflationary effect. The possible dangers are twofold: first the expansion of the currency circulation; second, the introduction of a subsidiary currency in the form of occupation money. The following safeguards should be noted:

(1) By using regular German currency for all local payments the public would be prevented from having a yard-stick for the depreciation of the mark and thus a means of speculation. Soldiers might possibly receive part of their pay in marks and the balance in a currency which could not be used by the German public. It would be similar to the German "Wehrmachtsbehelfsgeld," which has full value in army canteens and can be sent home to the soldier's family, but in the occupied country has only one-tenth value. This makes it possible to regulate the local spendings of soldiers.

(2) If occupation currency is issued, the local value of the soldiers' pay should be kept low to prevent inflationary effects as long as the supply situation is binding. The German public should be discouraged from efforts to use the occupation currency as a bridge to Allied currencies. This could be achieved by announcing an early withdrawal of the occupation money at the same rate as that at which it was circulated initially. If local prices rise so greatly that soldiers' purchasing power must be increased, it would be possible to do so by increasing the pay in local money instead of adjusting the rate of the occupation currency.

F. Breakdown of the Distributive System

An anti-inflation policy without continuance of some system of price control and rationing is unlikely to succeed. When government controls are transferred to the new authority, at least temporary interruptions of the regular distribution of consumers' goods may be anticipated. Probably the military defeat will be considered a signal for the end of

the control system and a start of the price race. Insufficient supplies might cause a breakdown of the rationing system; transactions; without stamps, coupons, etc., might become the rule, money being then the only instrument of distribution. Prices would rise quickly.

Price inflation is always focussed in the cost of foodstuffs. The prices of utilities, rents, and the few industrial products, such as coal, which are available for civilians, are easier to control and will remain at the official price level longer than agricultural goods. The events leading to and accompanying the defeat and military occupation probably will disturb the delivery of foodstuffs to the legitimate markets. But the new government nevertheless might succeed, without long delay, in making larger supplies available for the legitimate trade by using German or Allied stocks and by inducing farmers to resume their deliveries in exchange for fertilizers or other industrial products, at higher prices if necessary. For this purpose, premium certificates entitling the farmer to purchase scarce material, issued in addition to the price of delivered goods could be employed. Or there might be employed large-scale barter operations between consumers' and workers' cooperative organizations on the one hand, and agricultural cooperatives on the other. If necessary, consumers' cooperatives, etc., could be assisted by the government through adequate allocation of industrial products. The success of these measures would depend on various factors, such as the season of the year, the volume of stocks available from the last harvest, and transportation facilities. As soon as the distribution of rationed goods is resumed with a sufficient volume of supplies, black market prices will decline speedily, and it might even be possible to reestablish former prices.

If, however, controlled distribution of foodstuffs and of a minimum of industrial products were disrupted for a longer period and price controls became ineffective, the accumulated money reserves would be released unless drastic measures were taken; prices would rise at a speed varying according to local conditions and the supply and demand situation of the merchandise in question. In view of the experience of 1919-23, the German people's reaction will be quick. The situation might be aggravated by political conditions, such as lack of confidence in the stability of the economic and political system or inability of the government to organize distribution, collect taxes, and finance its expenditure without printing notes.

G. Stabilization of the Price and Income Level

Once an inflationary situation has developed, it may be attacked from two sides: by an increase in the supply of food and consumers' goods and by a restriction of the money in circulation. It can be expected, moreover, that the authorities after a time will regain control over prices and more or less stabilize the cost of living. However, the price system will have become thoroughly disorganized, and far reaching adjustments will be necessary. It seems advisable to make these adjustments at once and to bring all prices into uniformity by reestablishing at least the present price relations, if it is impossible to hold present prices. All prices, wages, and rents might be increased by a uniform percentage fixed by the authorities, as from a specific date. The present prices are fairly well in line with the inherent price and cost relations between products made of the same raw material. Having been in force over a long period, these prices are well known to everybody, and control could resume where the present system leaves off.

A rapid and uniform adjustment would be possible, and the whole economy would be likely to regain much more quickly the stable basis which it needs for successful reconstruction. Moreover it would be easier to hold the new price level and to combat the inflationary tendencies which will always reappear. Various price changes may be necessary, especially for agricultural products, but for a certain period it would be important to hold to the new prices rather rigidly in order to reestablish public confidence in the stability of the currency.

In deciding on the stabilization level, consideration has to be given to various factors, such as food prices, wages etc., To secure delivery of farm products without much coercion, it might be advisable to take the cost of foodstuffs on the farm as a yardstick of the depreciation of the mark and the necessary advancement of the general price level. Wages probably will not rise as fast as food prices, but profiteering and black market operations may bring higher food prices in towns than would correspond to the increase in producers' sales proceeds. There will be great differences between prices in the various regions of the country. Under such circumstances decisions would have to be reached speedily and backed up with all the force and variety of means at the disposal of the government, since the stability of the price level will be short-lived as long as the inequalities of the increase are not leveled. General confidence would be greatly strengthened by announcing a comprehensive financial and economic program and by demonstrating the government's willingness to carry it through against opposition.

H. Volume of National Income

Discontinuance of war production will reduce the national gross income flow by at least 50 percent. Other

factors, however, for some time might overcompensate the deflationary effects of the end of the war:

(1) Public relief and discharge payments to workers, demobilized soldiers, etc.;

(2) Government payments for war damages;

(3) Government payments to industry for unfinished contracts;

(4) Financing of public expenditure by printing of notes;

(5) Reconversion of industrial plants to peacetime production financed by accumulated funds and new credits, with a resultant price competition for available materials;

(6) Payments for production for export on relief, rehabilitation, and reparation accounts.

In these circumstances, the various alternative policies described below would be more or less useful in achieving the general objective.

I. Currency and Bank Deposits

In 1938, within the Germany of that period, there was estimated a national income of 80 billion RM and a currency circulation of approximately 8 billion RM. At present the circulation amounts to 35-37 billion RM, and it certainly will increase further before and after the occupation. If present prices are retained, the circulation must be reduced roughly by 80 percent to bring it down to the normal figure based on a pre-war national income. If prices are doubled, the desirable restriction would amount to 60 percent, and so on. A circulation of 40 billion RM would be sufficient to carry the pre-war income at five times increased prices. However, after stabilization of the price level the public might still have habits of holding more money than before the war. A less drastic reduction than that based on the above calculation might be sufficient to block inflationary

tendencies. On the other hand, production and national income will not reach the pre-war level at once.

The forcible reduction of currency circulation could be effected before the price level is stabilized, as one of the measures to bring about stabilization. Therefore its objective would be rather to stop inflation than to bring currency circulation into the right relation with the national income.

Currency circulation could be reduced by impounding a part of all personal cash holdings at the occasion of an exchange of all currency against new notes. Against the part retained by the government, a non-transferable receipt would be issued. At the same time, the corresponding part of all bank and savings deposits, which total at present well over 150 billion RM, would need to be transferred to a special account, to be used in the same way as the currency withheld:

(1) For exchange against Reich bonds at present held by the Reichsbank and the other credit instituations; or

(2) For use in payment of the individual's obligations for capital levy, war-profit, or similar extraordinary taxes.

Exchange of the present German currency for new notes in any case might be desirable in view of possible territorial changes and also to prevent the financing of Nazi underground movements out of currency hoards established by the Nazis before their downfall. The program outlined above would result in:

(1) Reduction of the German money reserves to a figure in normal proportion to the price and income level;

(2) Release of the banks from their excessive holdings of government paper and the placement of these bonds in the hands of the saving public, or their withdrawal against tax duty.

To block an important source of inflation, extension of credit by the banks could be restricted to that necessary to finance reconversion and increase in the production of consumer and export goods. Control of bank credits, therefore, might well be intensified. The big banks hold various titles which enable them to draw cash from the Reichsbank: Treasury-bills, "Dego-bills," "Mefo-certificates," rediscount promises of the Reichsbank, and also guarantees of the Reich. Unless the use of these titles is made subject to the general restrictions imposed on the Reichsbank, currency circulation is likely to expand dangerously, since all banks will show a great desire for liquidity. If the bank holdings of Reich paper are reduced, the public soon will regain confidence in banking.

Currency conversion and the partial blocking of present currency and deposit holdings are operations which should, if possible, not be carried out more than once. It would probably be wise, therefore, to delay their execution until the magnitude of the problem is fairly clear, lest inadequate measures be taken. The technical difficulties of arranging these operations also argue for a delay of several months.

J. The Budget

Ordinary Reich expenditures amounted to 5.6 billion RM in 1933/34 (latest available figure). The League of Nations' World Economic Survey estimated non-military expenditure during 1941/42 at 10 billion RM. The increase was due to the higher burden of the Reich debt. (Yearly interest payments may be estimated at 6 billion RM on a Reich debt of 240 billion RM.) Pensions and family allowances for soldiers were estimated at 12 billion RM yearly. By reducing civilian expenditure to its former level, and saving a great part of the interest burden by reduction of the debt,

the ordinary budget expenditure would sink to approximately 8 billion RM yearly, plus whatever will be spent for unemployment relief, occupation costs and pensions. This, however, would require either adjustment of interest payments or extraordinary taxation in the nature of a capital levy.

In case of a general price rise, expenditure with the exception of interest on the debt, will increase accordingly. Subsidies paid to reduce food prices easily cause large budget deficits; it might be preferable instead to discontinue payment of subsidies and increase agricultural prices. Tax revenue in 1938/39 with business going full blast amounted to 17.7 billion RM.

Apart from the ordinary budget and dependent on special measures, will be the financing of public works, especially the rebuilding of war-damaged areas, and the financing of reparation and other non-commercial export production. It would perhaps be advisable to continue collecting the various war surtaxes and perhaps even temporarily to increase some tax rates. Further, to adapt the tax system to changes in the price level, various changes would have to be made, such as an increase in fixed rates (that is in marks) and in railroad fares, change of progressive tax rates, etc. Delay in adopting these measures might have detrimental effects on the situation of the Reich treasury.

For psychological reasons war pensions might be transferred to a special budget fund and covered out of special taxes. On the other hand indemnities for air-raid and other war damages cannot be paid out in cash without inflationary effects. In many cases the person suffering the damage could be given compensation by the restoration of his property in kind. For example, destroyed houses could be rebuilt. The

balance of any claims would be paid in government bonds. A special tax on undamaged property might be assessed to cover these indemnities.

Pending final settlement the government might temporarily interrupt payment of interest and redemption of the Reich debt. The short-term debt might then be transformed by unilateral act into a long-term debt.

If a capital levy were imposed, a large part of the debt could be withdrawn and the balance converted into a uniform debt with postponed maturity. Reduction of the interest rates (now 3½ percent) would have undesirable effects, since it would reduce the cash value of the bonds, prevent saving banks from paying attractive interest on deposits, and influence unfavorably the operations of insurance institutions.

K. Repudiation of the Reich Debt

Repudiation of the Reich debt is sometimes advocated as a means of solving the budget problem by a simple and effective measure, and of demonstrating to the German people the extent to which the Nazi regime had destroyed public wealth. Inasmuch as some 95 percent of the debt is held by credit institutions, it would be necessary to declare void a high percentage of all deposits, perhaps 75 percent. The repudiation scheme therefore would encounter great technical difficulties. The percentage of Reich paper held by credit institutions is far from uniform; complicated methods of accounting would be necessary to assure equal distribution of the burden among the institutions. Moreover, if a part of the deposits were to be declared void, additional measures would have to be taken to prevent an inequitable distribution of the burden upon the individual investor. Many small depositors would probably have to be compensated

for a part of their loss, and to find the necessary means for this, a new debt or a special tax would have to be established. Additional measures would be desirable to offset the onesided benefits gained by the industrialist and the farmer as well as the shrewd investor who acquired shares and land, etc.

All the desired effects of the repudiation could be achieved by a capital levy imposed on real and nominal values held by any person. The rate could be differentiated to prevent socially undesirable effects. By distributing the government paper held by the banks among their depositors, and legalizing the use of this paper for payment of the levy, the Reich debt could be reduced or even nullified, according to the rate of the capital tax adopted.

A capital levy is widely expected by the German public, which considers it necessary to offset the disparity between nominal and real wealth caused by the war. Various, though for political reasons ineffective, attempts in this direction were made after 1918.

4. The Capital Levy

The capital levy or tax on increase in value of property is an effective technique of preventing the holders of "stable values" from making great and unjustified profits out of the depreciation of the currency. The German tax system includes a regular property tax, based on the value of personal property as ascertained every five years. In 1935, the total value of property declared, excluding property under 5,000 RM, amounted to 70 billion RM. In addition, corporations reported a net property of 25 billion RM. Part of this included claims in terms of money, cash, deposits, etc. These increased during the war by at least four times. The other assets are stable values which, unless destroyed, have to be revalued. This

applies also to agricultural property which always has been appri zed very low (based on fictitious yields).

By assuming a multiple of the pre-war or book value of stable assets, and adding money deposits claims after subtracting debts at face value, the new value of the property can be established easily and could be made subject to a levy or tax. The scheme might be completed by a tax on war profits, since during the war industrial profits have not been taxed so as to prevent formation of new fortunes or the increase of existing ones.

The capital levy and war profits tax should be assessed and collected in a short time. If they are not, they would seriously hamper economic recovery without securing the desired effect on currency and prices. The payment of these taxes, would be made chiefly in the form of the blocked deposits and impounded currency, or of government bonds. The levy might operate to reduce the economic power of big business, since the greater part of savings deposits are in the hands of small and middle class investors. Industrial firms possibly may be short of money or claims which they could use for payment of the tax. To cover the deficit, corporations would have to issue new shares or bonds, or ask the banks for credit. This would provide the government with an unusual opportunity for influencing the composition of German industrial ownership.

It is important to realize, however, that serious criticism from the point of view of the Allies can be advanced against the proposal of a capital levy:

(1) Assuming that an adequate scheme for the control of currency and bank deposits is adopted, the levy on capital can accomplish nothing that a high income tax or other usual type of tax could not achieve.

(2) The administration of a capital levy is extremely complicated;

(3) Its chief significance is in the redistribution of national wealth and income which it accomplishes, and such measures of long-term social reform are probably best avoided by the occupying forces.

M. Reparations

Payment of reparations will aggravate the inflation danger by affecting the budget and the balance of international payments. If the German government is obliged to spend sizable amounts domestically because of reparations, e.g., in payment of goods bodily transferred to the Allies or wages for workers engaged in reparation work, it may be necessary to discourage the government from printing notes for such payments, and to insist on adequate taxation. If external payments are requested, care should be taken that the stability of the currency is not impaired more than is unavoidable. If exports are not sufficient to cover the desired payments, imports and other debit items could be reduced.

N. Public Works

Reemployment policies could be centered around building of homes and rebuilding of railroads and utilities. To reduce the burden on the Reich budget, plans will probably have to be devised to enable the states, municipalities, private tenants and homeowners to share in the financing. The public will be more easily induced to finance a great part of the cost if there is a direct relationship between the loan and the use of the money, such as financing house-building in the vicinity. Private capital could be supplied in the form of deposits with cooperative building associations and of municipal bonds issued with a Reich guarantee. The

system of intermediary financing through banks, employed by Germany in the thirties, may be adopted to great advantage. Funds of savings banks and credit cooperatives could be used as soon as deposits start to increase again. Private building of homes may have to be subsidized out of public funds and by public guarantee for mortgages.

O. Foreign Trade and Exchange

Controls of foreign exchange dealings should continue in force. Exportation of capital and speculation in German currency in particular should be prevented. Regimentation of foreign trade is likely to be necessary to assure that German trade fits into the desired pattern of international exchange of goods. Domestic prices should not be influenced by foreign trade developments. It might be advisable, therefore, to establish an official import-export agency which would have a monopoly on German foreign trade and would purchase and sell import and export goods inside and outside of Germany. This also would prevent Germany from using dumping and other unfair competitive practices. As soon as prices and exchange rates are stabilized, the desired degree of freedom could be restored to German foreign trade.

German clearing debts and Reich securities or currency, especially Reichskreditkassenscheine, held by foreign countries could be declared void and the claims of the creditor nations settled as part of the reparations problem. As a result, the specific form under which German looting took place would not influence the right of the nation damaged to claim an indemnity, or its amount.

P. Conclusion

The economic, social and political dangers, from the Allied point of view, of an unchecked inflation in Germany are generally recognized. In the end, however, many experts

have tended either to minimize the possibility that a small inflation might develop into one of the runaway type, or else to consider the available means of combating the inflation as insufficient. The problem is thus declared either non-existant or insolvable.

The present paper attempts to show that, if the inflationary elements in the German economic structure are to be overcome, it will be necessary to adopt a comprehensive anti-inflation policy consisting of monetary and fiscal measures, such as reduction of currency circulation and of bank deposits, capital levy or some other provision for extraordinary taxation, together with price and wage control securing rapid adjustment of all prices and incomes to a level at which stability can reasonably be expected. It also will be necessary to provide the population with a regular supply of consumer goods at official prices to cover their basic needs. A decisive and fully implemented stabilization attempt, backed by a strong government, might reasonably be expected to succeed in bringing price and income levels and the volume of money into equilibrium, thereby laying the foundation for a stable economic system.